

# Apollo Tyres

BSE SENSEX 62,979 S&P CNX 18,666

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## Stock Info

Bloomberg	APTY IN
Equity Shares (m)	635
M.Cap.(INRb)/(USD b)	264.3 / 3.2
52-Week Range (INR)	427 / 174
1, 6, 12 Rel. Per (%)	8/30/112
12M Avg Val (INR M)	986
Free float (%)	62.7

## Financials Snapshot (INR b)

Y/E March	FY23	FY24E	FY25E
Sales	245.7	267.0	288.5
EBITDA	33.1	42.2	46.2
Adj. PAT	10.9	16.9	20.8
EPS (Rs)	17.1	26.7	32.7
EPS Growth (%)	69.1	55.8	22.7
BV/Share (Rs)	253.0	280.0	314.0

## Ratios

RoE (%)	8.8	12.5	13.7
RoCE (%)	10.6	14.8	16.3
Payout (%)	24.4	18.7	16.8
P/E (x)	24.3	15.6	12.7
P/BV (x)	1.6	1.5	1.3
Div. Yield (%)	1.0	1.2	1.3
FCF Yield (%)	5.2	13.3	9.5

## Shareholding pattern (%)

As On	Mar-23	Dec-22	Mar-22
Promoter	37.3	37.3	37.3
DII	19.4	18.7	20.1
FII	22.4	22.9	19.4
Others	21.0	21.1	23.1

FII Includes depository receipts

**CMP: INR416 TP:INR500 (+20%) Buy**

## Focus on improving profitability over market share gain

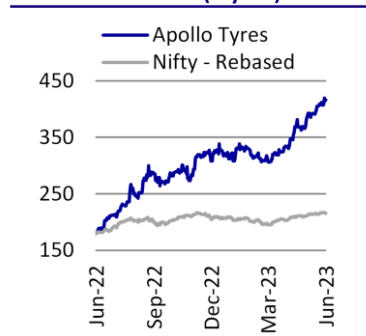
### Additional PCR capacity likely to emerge from FY26

Apollo Tyres (APTY) hosted an investor meet followed by the AP plant visit. The plant has dedicated lines for PCR and TBR products with a capacity of 15k and 3k tyres per day, respectively. Further, as the current facility for TBR/PCR is at the center of the 104 Hectare Greenfield campus, it has a scope to expand both on the left and right directions.

Management discussed about its FY26 vision of: i) a revenue of USD5.0b (vs. USD3.1b in FY23), ii) an EBITDA of >15.0% (vs. 13.5% in FY23), iii) a ROCE of 12-15% (vs. 10.1% in FY23) and iv) a net debt-to-EBITDA of <2x (vs. 1.4x in FY23). While APTY indicated that capacities will be added in FY26, the next leg of capex is likely to be prudent and will not be bunched up. Hence, we believe it can be funded from operating cash flows.

- **Revenue to grow by mid-to-high single digit:** Growth will largely be driven by volumes as realizations are not likely to improve materially. There is a healthy demand in T&B replacement category as it has started to recover, while PCR replacement is slightly muted. However, replacement demand is expected to bounce back fueled by strong PV volume growth over the last 2-3 years.
- **Near-term demand pressure to sustain in the EU:** While the industry is declining, APTY continues to outperform the underlying market. Near-term demand is projected to remain under pressure, which should result in flattish growth in Europe. Recovery in 2H FY24 could not be assessed at this point. The US is estimated to grow on a small base as sales in FY23 stood at USD120m vs. USD58m in FY22.
- **Expect steady-state EBITDA margin for both India and Europe:** EBITDA margin in the coming quarters should be higher than overall FY23 margin but lower than 4Q FY23. The previous quarter's margin was one of the highest despite RM cost being ~15% higher than the normalized level. There is a quarterly price adjustment for PV OEMs, while in case of CV OEMs, it is negotiable. The company will not operate OE businesses with lower margin.
- **Market share gains by cutting prices to be avoided:** The company has lost ~100bp market share YoY in TBR and the current market share stands at 28-29%. This is because the competition is lagging by one price hike. Market share in PCR stands at 20-21%. Market share gain in OE category appears challenging at this point of time.
- **Currently operating at 75-80% utilization level,** with PCR utilization being slightly at the lower end. Further, debottlenecking should result in 4-5% incremental capacity. Current capacity is sufficient until FY25. However, additional capacity in PCR will be required from FY26. For a capacity of 8k tyres per day, capex of INR15-20b will be required in India and EUR200m will be required in Europe. Budgeting for this capex will be done in 2H FY24. Brownfield capex will be ~15% lower than Greenfield, however, the difference is largely with respect to the timing.

## Stock Performance (1-year)

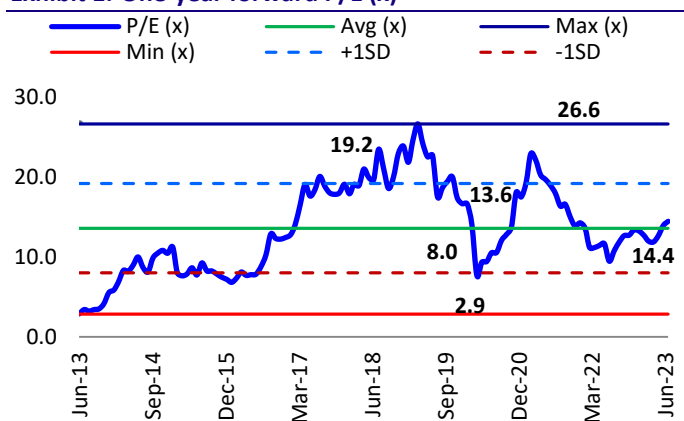


- **The company aims to improve ROCE beyond 15%**, with its first target being to maintain ROCE between 12% and 15%. ROCE is likely to improve driven by profitability through high focus on improving mix and stable capex guidance as the company will not bunch up the capex. PCR mix in India is 22-23% while the same is 70% in the EU. Hence, the capital allocation needs to be efficient with high focus on PCR. ROCE for Indian business is higher than the EU.
- **Overall radialization is at 50-55%**: For the T&B segment, OE is at 75% and replacement is at 45%. Radialization has been paused in the T&B segment over last 2-3 years since China's anti-dumping duty. Off-highway segment in India is still largely bias.

## Valuation and view

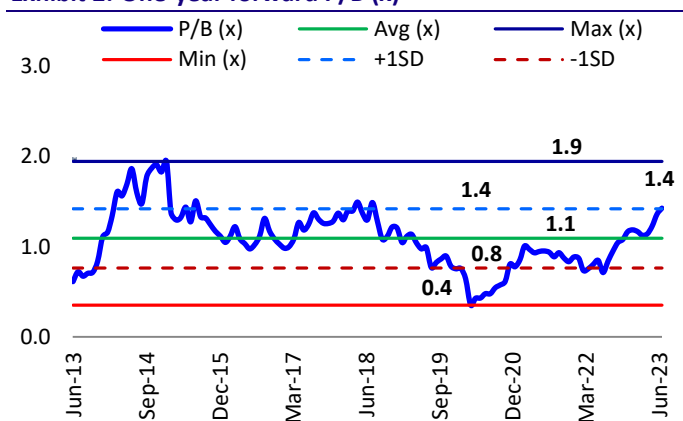
- We have marginally cut our earnings estimates by 1% as APTY is likely budget for the next phase of capex starting from FY25. However, unlike in the past, the current phase of capex is going to be brownfield (lower intensity) and would not be bunched up (and hence, manageable from its operating cash flows).
- Therefore, we estimate APTY to turn net debt free by FY25. We raise our target multiple for APTY to 15x from 13x, to factor in the company's sustained focus on capital allocation and the resultant increase in capital efficiencies (RoCE >15%). **Reiterate BUY with a TP of INR500 (premised on 15x Jun'25E consol. EPS).**

## Exhibit 1: One-year forward P/E (x)



Source: Company, MOFSL

## Exhibit 2: One-year forward P/B (x)



Source: Company, MOFSL

**Exhibit 3: Vision for FY26 vs. FY23**

Particulars	FY 2023 Actual	FY 2026 Vision
Revenue (USD Bn)	3.1 <sup>1</sup>	5.0
EBITDA (%)	13.5%	>15%
ROCE (%)	10.1%	12% - 15%
Net Debt to EBITDA (x)	1.4x	<2x

Source: Company, MOFSL

\*Adjusted for movement in forex, the like-for-like FY23 revenue would be approximately USD3.3b.

**Exhibit 4: Focus on driving premiumization in Europe**

Areas of focus under Vision 2026	<ul style="list-style-type: none"> <li>• Product Mix enrichment in each product category / brand</li> <li>• Volume growth in targeted categories</li> <li>• Price position vs Premium brands</li> </ul>
Key achievements in FY23	<ul style="list-style-type: none"> <li>• Market share gain particularly on All Season and UUHP tires as well as Agriculture tires</li> <li>• Product mix enrichment: 170bps improvement in PCLT sales mix (UHP mix)</li> <li>• Price position improvement: improved by 2 to 4pts average vs Top Tier 1 benchmark</li> </ul>
FY24 target	<ul style="list-style-type: none"> <li>• Despite challenging environment, target to achieve higher volume growth as compared to Industry</li> <li>• Continue product Mix enrichment: Targeting further improvement in UHP proportion</li> </ul>

Source: Company, MOFSL

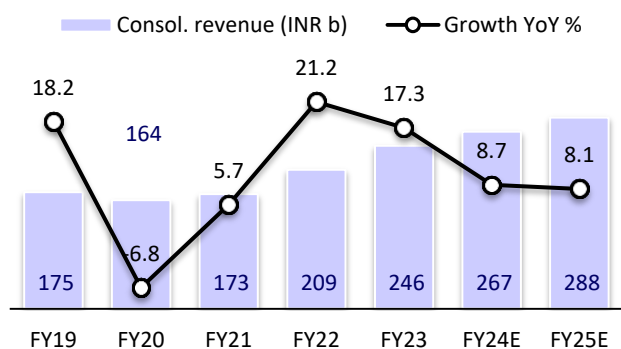
**Exhibit 5: Brand leadership in India**

Areas of focus under Vision 2026	<ul style="list-style-type: none"> <li>• Build premium Brand Experience across various category range</li> <li>• Strengthen brand equity</li> <li>• Build Omnichannel connected brand journey with enhanced Retail Experience</li> </ul>
Key achievements in FY23	<ul style="list-style-type: none"> <li>• Maintained volume leadership in PCR replacement segment for 3<sup>rd</sup> year in a row</li> <li>• Launched more than 7 new products in CV segment</li> <li>• Continued focus on Rural segment: 14% growth in business; 50+ distributors added</li> </ul>
FY24 target	<ul style="list-style-type: none"> <li>• Drive volumes while holding price premium positioning. Build VR brand</li> <li>• Strengthen and build Apollo as Consumer Brand</li> <li>• Leverage Sport Brand Assets across our Product Communications</li> </ul>

Source: Company, MOFSL

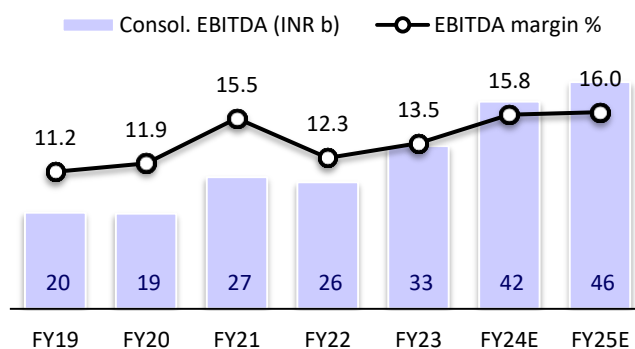
## Story in Charts

**Exhibit 6: Revenue and growth trends**



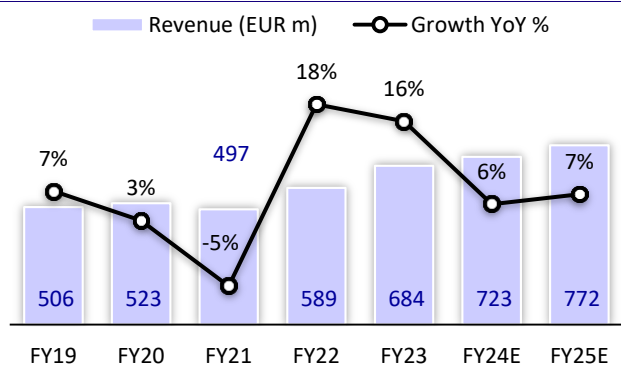
Source: Company, MOFSL

**Exhibit 7: EBITDA and EBITDA margin trends**



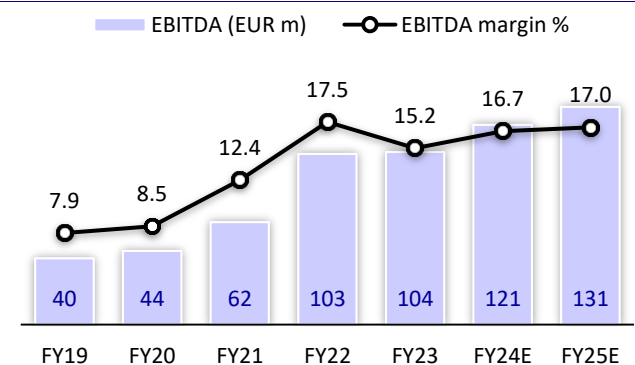
Source: Company, MOFSL

**Exhibit 8: Revenue and growth trends for the EU business**



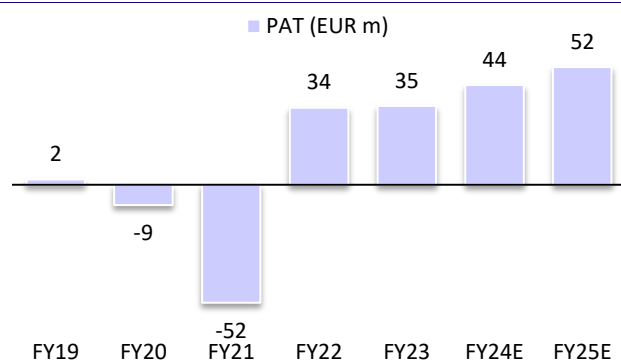
Source: Company, MOFSL

**Exhibit 9: EBITDA margin trend for its European operations**



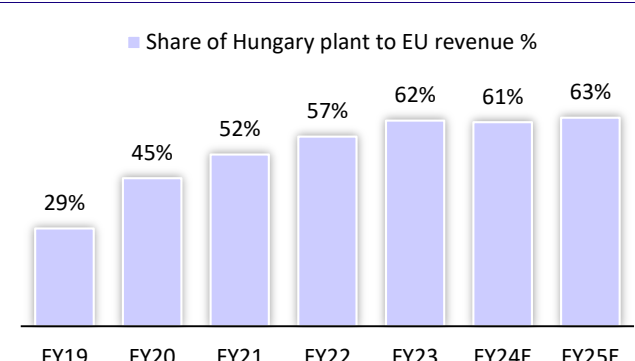
Source: Company, MOFSL

**Exhibit 10: European operations to remain profitable despite challenges**



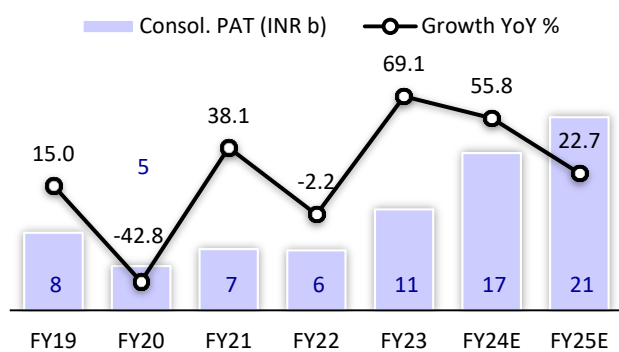
Source: Company, MOFSL

**Exhibit 11: Hungary plant's contribution to APTY's European operations**



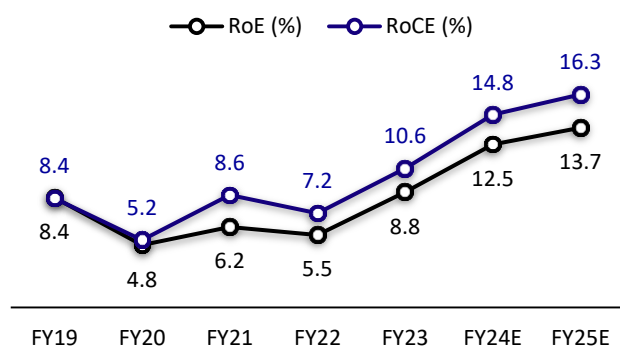
Source: Company, MOFSL

Exhibit 12: PAT and PAT growth trends



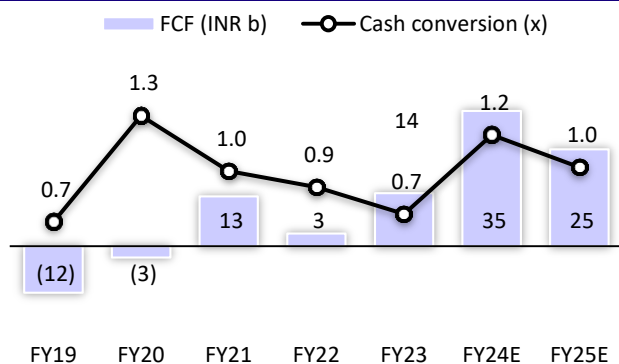
Source: MOFSL, Company

Exhibit 13: Trend in APTY's return profile



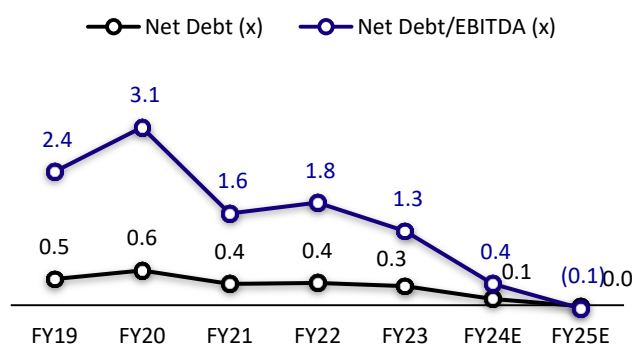
Source: MOFSL, Company

Exhibit 14: FCF turns positive in FY21 after an elongated capex



Source: MOFSL, Company

Exhibit 15: Expect net debt to reduce to 0.1x EBITDA in FY23



Source: MOFSL, Company

## Financials and valuations

### Consolidated - Income Statement

(INR m)

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
<b>Total Income from Operations</b>	<b>1,75,488</b>	<b>1,63,502</b>	<b>1,72,820</b>	<b>2,09,476</b>	<b>2,45,681</b>	<b>2,66,963</b>	<b>2,88,483</b>
Change (%)	18.2	-6.8	5.7	21.2	17.3	8.7	8.1
Raw Materials	1,01,383	90,756	93,945	1,23,855	1,46,371	1,53,589	1,65,620
Employees Cost	24,296	24,822	25,134	25,742	26,199	29,198	31,347
Other Expenses	30,224	28,537	26,917	34,137	39,975	41,970	45,322
<b>EBITDA</b>	<b>19,586</b>	<b>19,387</b>	<b>26,825</b>	<b>25,741</b>	<b>33,137</b>	<b>42,205</b>	<b>46,194</b>
EBITDA Margin (%)	11.2	11.9	15.5	12.3	13.5	15.8	16.0
Depreciation	8,127	11,381	13,150	13,997	14,191	15,433	15,700
<b>EBIT</b>	<b>11,460</b>	<b>8,006</b>	<b>13,675</b>	<b>11,744</b>	<b>18,945</b>	<b>26,773</b>	<b>30,493</b>
EBIT Margin (%)	6.5	4.9	7.9	5.6	7.7	10.0	10.6
Int. and Finance Charges	1,811	2,808	4,430	4,444	5,312	5,254	4,060
Other Income	1,231	237	1,294	1,235	411	792	921
<b>PBT bef. EO Exp.</b>	<b>10,880</b>	<b>5,434</b>	<b>10,539</b>	<b>8,535</b>	<b>14,044</b>	<b>22,312</b>	<b>27,354</b>
EO Items	2,000	0	4,927	59	-226	0	0
<b>PBT after EO Exp.</b>	<b>8,880</b>	<b>5,434</b>	<b>5,612</b>	<b>8,476</b>	<b>14,269</b>	<b>22,312</b>	<b>27,354</b>
Total Tax	2,083	670	2,110	2,091	3,226	5,372	6,568
Tax Rate (%)	23.5	12.3	37.6	24.7	22.6	24.1	24.0
<b>Reported PAT</b>	<b>6,797</b>	<b>4,764</b>	<b>3,502</b>	<b>6,385</b>	<b>11,044</b>	<b>16,939</b>	<b>20,786</b>
<b>Adjusted PAT</b>	<b>8,328</b>	<b>4,764</b>	<b>6,576</b>	<b>6,429</b>	<b>10,869</b>	<b>16,939</b>	<b>20,786</b>
Change (%)	15.0	-42.8	38.1	-2.2	69.1	55.8	22.7

### Consolidated - Balance Sheet

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Equity Share Capital	572	572	635	635	635	635	635
Total Reserves	99,826	98,728	1,13,796	1,16,886	1,28,143	1,41,906	1,59,199
<b>Net Worth</b>	<b>1,00,398</b>	<b>99,300</b>	<b>1,14,431</b>	<b>1,17,521</b>	<b>1,28,778</b>	<b>1,42,541</b>	<b>1,59,834</b>
Total Loans	51,801	68,383	65,843	61,937	55,877	46,531	36,531
Deferred Tax Liabilities	7,707	7,032	7,020	9,014	9,594	9,594	9,594
<b>Capital Employed</b>	<b>1,59,906</b>	<b>1,74,715</b>	<b>1,87,294</b>	<b>1,88,471</b>	<b>1,94,248</b>	<b>1,98,666</b>	<b>2,05,959</b>
Gross Block	1,93,899	2,42,083	2,64,875	2,90,635	3,05,312	3,12,913	3,25,318
Less: Accum. Deprn.	78,352	89,734	1,02,883	1,16,880	1,31,071	1,46,504	1,62,204
<b>Net Fixed Assets</b>	<b>1,15,547</b>	<b>1,52,350</b>	<b>1,61,992</b>	<b>1,73,755</b>	<b>1,74,241</b>	<b>1,66,410</b>	<b>1,63,114</b>
Goodwill on Consolidation	1,993	2,134	2,204	2,158	2,288	2,288	2,288
Capital WIP	15,393	16,420	11,065	6,182	2,526	6,086	8,753
<b>Total Investments</b>	<b>60</b>	<b>194</b>	<b>1,096</b>	<b>4,813</b>	<b>4,358</b>	<b>4,358</b>	<b>4,358</b>
<b>Curr. Assets, Loans&amp;Adv.</b>	<b>68,516</b>	<b>60,957</b>	<b>82,088</b>	<b>84,550</b>	<b>90,179</b>	<b>1,16,939</b>	<b>1,32,713</b>
Inventory	34,841	32,069	33,185	41,554	44,285	51,198	55,325
Account Receivables	13,144	9,399	13,808	20,513	24,885	25,599	27,663
Cash and Bank Balance	5,627	7,496	21,458	10,807	8,462	26,508	34,992
Loans and Advances	14,905	11,993	13,637	11,677	12,547	13,634	14,733
<b>Curr. Liability &amp; Prov.</b>	<b>41,603</b>	<b>57,340</b>	<b>71,151</b>	<b>82,987</b>	<b>79,344</b>	<b>97,414</b>	<b>1,05,267</b>
Account Payables	20,665	23,090	28,067	35,309	33,539	40,227	43,470
Other Current Liabilities	16,002	29,115	38,644	44,193	42,313	53,393	57,697
Provisions	4,936	5,134	4,440	3,484	3,492	3,794	4,100
<b>Net Current Assets</b>	<b>26,913</b>	<b>3,617</b>	<b>10,937</b>	<b>1,563</b>	<b>10,836</b>	<b>19,525</b>	<b>27,446</b>
<b>Appl. of Funds</b>	<b>1,59,906</b>	<b>1,74,715</b>	<b>1,87,294</b>	<b>1,88,471</b>	<b>1,94,248</b>	<b>1,98,666</b>	<b>2,05,959</b>

## Financials and valuations

### Ratios

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
<b>Basic (INR)</b>							
<b>EPS</b>	<b>14.6</b>	<b>8.3</b>	<b>10.4</b>	<b>10.1</b>	<b>17.1</b>	<b>26.7</b>	<b>32.7</b>
BV/Share	197.2	195.1	224.8	230.9	253.0	280.0	314.0
DPS	3.0	6.2	3.5	3.3	4.3	5.0	5.5
Payout (%)	30.4	90.5	63.5	32.3	24.4	18.7	16.8
<b>Valuation (x)</b>							
P/E	28.6	50.0	40.2	41.1	24.3	15.6	12.7
P/BV	2.1	2.1	1.9	1.8	1.6	1.5	1.3
EV/Sales	1.6	1.8	1.8	1.5	1.3	1.1	0.9
EV/EBITDA	14.5	15.4	11.5	12.3	9.4	6.7	5.8
Dividend Yield (%)	0.7	1.5	0.8	0.8	1.0	1.2	1.3
FCF per share	-21.0	-5.0	20.3	5.3	21.6	55.2	39.5
<b>Return Ratios (%)</b>							
RoE	8.4	4.8	6.2	5.5	8.8	12.5	13.7
RoCE (pre-tax)	8.4	5.2	8.6	7.2	10.6	14.8	16.3
RoIC	6.9	4.8	5.6	5.5	8.5	11.9	14.5
<b>Working Capital Ratios</b>							
Fixed Asset Turnover (x)	0.9	0.7	0.7	0.7	0.8	0.9	0.9
Asset Turnover (x)	1.1	0.9	0.9	1.1	1.3	1.3	1.4
Inventory (Days)	72	72	70	72	66	70	70
Debtor (Days)	27	21	29	36	37	35	35
Creditor (Days)	43	52	59	62	50	55	55
<b>Leverage Ratio (x)</b>							
Net Debt/Equity	0.5	0.6	0.4	0.4	0.3	0.1	0.0

### Consolidated - Cash Flow Statement

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
<b>(INR m)</b>							
OP/(Loss) before Tax	8,881	5,434	5,612	8,477	14,272	22,312	27,354
Depreciation	8,127	11,381	13,150	13,997	14,191	15,433	15,700
Interest & Finance Charges	1,811	2,808	4,430	4,444	5,312	4,461	3,139
Direct Taxes Paid	-2,199	-925	-2,035	-1,222	-2,168	-5,372	-6,568
(Inc)/Dec in WC	-5,433	7,996	4,616	-1,829	-7,890	9,356	563
<b>CF from Operations</b>	<b>11,187</b>	<b>26,695</b>	<b>25,772</b>	<b>23,867</b>	<b>23,717</b>	<b>46,189</b>	<b>40,189</b>
Others	-476	-1,522	-1,303	-2,332	-2,373	0	0
<b>CF from Operating incl EO</b>	<b>10,711</b>	<b>25,174</b>	<b>24,469</b>	<b>21,535</b>	<b>21,344</b>	<b>46,189</b>	<b>40,189</b>
(Inc)/Dec in FA	-22,740	-28,055	-11,563	-18,164	-7,604	-11,161	-15,072
<b>Free Cash Flow</b>	<b>-12,028</b>	<b>-2,881</b>	<b>12,906</b>	<b>3,371</b>	<b>13,739</b>	<b>35,028</b>	<b>25,116</b>
(Pur)/Sale of Investments	11,366	-134	-12,547	5,960	2,512	0	0
Others	1,414	230	667	482	331	792	921
<b>CF from Investments</b>	<b>-9,959</b>	<b>-27,959</b>	<b>-23,443</b>	<b>-11,722</b>	<b>-4,761</b>	<b>-10,369</b>	<b>-14,151</b>
Issue of Shares	0	0	10,800	0	0	0	0
Inc/(Dec) in Debt	3,265	13,863	-3,222	-1,875	-7,484	-9,346	-10,000
Interest Paid	-1,819	-2,232	-3,407	-4,022	-4,793	-5,254	-4,060
Dividend Paid	-2,069	-4,310	0	-2,223	-2,064	-3,176	-3,493
Others	-314	-2,810	-2,626	-2,694	-2,577	0	0
<b>CF from Fin. Activity</b>	<b>-936</b>	<b>4,510</b>	<b>1,545</b>	<b>-10,814</b>	<b>-16,918</b>	<b>-17,775</b>	<b>-17,554</b>
<b>Inc/Dec of Cash</b>	<b>-184</b>	<b>1,725</b>	<b>2,571</b>	<b>-1,000</b>	<b>-336</b>	<b>18,045</b>	<b>8,484</b>
Opening Balance	4,806	4,622	6,347	9,725	8,724	8,389	26,434
<b>Closing Balance</b>	<b>4,622</b>	<b>6,347</b>	<b>8,918</b>	<b>8,724</b>	<b>8,389</b>	<b>26,434</b>	<b>34,918</b>

Investment in securities market are subject to market risks. Read all the related documents carefully before investing

NOTES



Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

\*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall be within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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